

Post 2006 Symposium

Panel: Developing Electric Competition in Illinois

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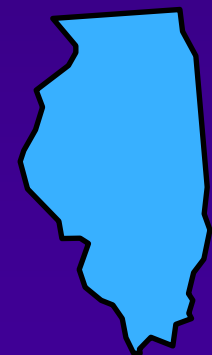
What Conditions are Necessary for Competition to Provide Benefits to Illinois Customers?

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What Conditions are Necessary for Competition to Provide Benefits to Illinois Customers?

■ Outline ■

- f* What is needed for *wholesale* competition to develop and benefit customers?
- f* Importance of the wholesale market to retail market development
- f* Some post-2006 implementation issues for Illinois

What Is Needed for Wholesale Competition to Develop and Benefit Customers?

- Three general characteristics determine a market's competitiveness
 - 1 Alternative supply availability and price responsiveness (elasticity)
 - 2 The market share or concentration of firms in the relevant market
 - 3 Customer price responsiveness for the product

What Is Needed for Wholesale Competition to Develop and Benefit Customers? *(continued)*

- ■ No single characteristic of the three will determine a market's competitiveness
- Supply availability and price responsiveness (1) is the most complex characteristic for electric markets -- but all are difficult to resolve

Based on the Three Characteristics -- What Conditions Should be Examined to Determine Wholesale Competitiveness?

- 1 Transmission access for qualified suppliers
-- including entry barriers, transmission
bottlenecks, etc.
- 2 Available transmission capacity to support
market transactions and ability to add
transmission capacity
- 3 Generation market concentration in
relevant market or markets
- 4 Available price constraints to limit price
spikes or price run-ups (mitigation)

What Conditions Should be Examined to Determine Competitiveness?

(continued)

- 5 *Independence* of market monitoring and reporting and data access for outside analysis -
 - identify problems with liquidity, access, and market performance and suggest solutions
- 6 Reliability of system and consistent power quality
- 7 Diversification in the size (baseload, intermediate, peak) and fuel type (not just one fuel) of generation capacity
- 8 Responsiveness of demand to price changes

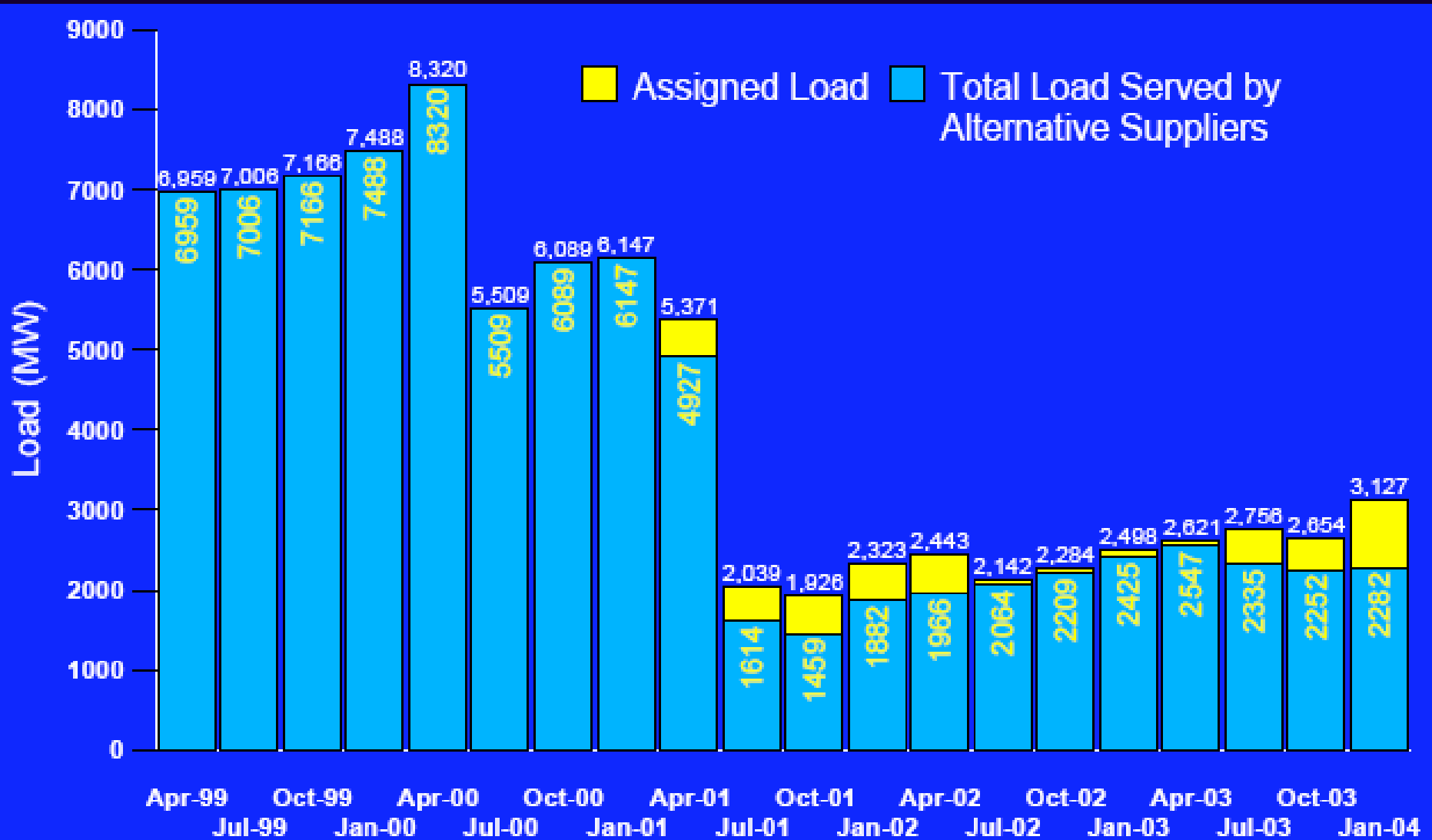
What Conditions Should be Examined to Determine Competitiveness? *(continued)*

- Need to determine whether these conditions have been met sufficiently
 - don't need all of them or to perfection
- 4 & 5 can be address directly with policy changes
- The remaining are mostly structural in nature, which policy can address, but not fully resolve alone

Interrelationship Between Wholesale and Retail Markets

- An efficient and fair retail market design is not a guarantee that retail competition will develop and benefit customers
- No chance a retail market will develop if the wholesale market is dysfunctional
- Examples include:
 - f* California - the crisis began on the wholesale side and exacerbated by poor retail design
 - f* Pennsylvania - worked well for 2 years, but problems that began on the wholesale side (higher costs for suppliers and price volatility) caused a dramatic drop in retail activity

Total Customer Load Served by Alternative Suppliers in Pennsylvania



Some Post-2006 Implementation Issues for Illinois

- "Look before you leap"

- f* continue state-level market monitoring of wholesale markets (MISO and PJM West)

- f* develop a set of minimum conditions to guide retail access design
 - including RTO functions, robust wholesale trading, price stability

Some Post-2006 Implementation Issues for Illinois *(continued)*

- Choose the power procurement model that fits the wholesale conditions
- Phase-in from distribution company to bilateral contracting to ICC-based competitive bidding (Maine) to auctions (New Jersey)?
 - f* phase-in by customer class & company
 - f* larger customers in market
 - f* have sufficient length of contract to stabilize prices and supply/demand resource mix

Some Post-2006 Implementation Issues for Illinois *(continued)*

- More protections or stability for smaller customers and relatively less for larger
- Two-thirds of the distribution companies had less than one percent residential shopping in the US. last year
- Most retail activity (switching) has been in the larger customer categories
 - f* larger customers have more options and are more active shoppers